



REAL ESTATE INC.

Who's paying for \$8 billion Shipyard? So far, wealthy foreigners. Soon, Wall Street

Jul 13, 2015, 2:29pm PDT Updated Jul 13, 2015, 4:24pm PDT

Cory Weinberg

San Francisco Business Times

When the first rows of homes at Hunters Point Shipyard popped out of the ground

last year, it was cause for celebration at

developer Lennar Urban, which has

slogged through the \$8 billion project for

15 years.



Take a 4-Step Tour

Email Me Instead

Kofi Bonner of Lennar Urban is spearheading the redevelopment of the Shipyard at Hunters... more

It was only fitting that the people who helped pay for that construction got their own party: wealthy investors from China, the Philippines, Switzerland and other countries who plunked down \$500,000 each in exchange for a U.S. green card as part of the federal EB-5 program. The event was complete with a photo booth and VIP tour of the site.

“It was celebratory. For those clients, they hadn’t come back to see the project in over a year. They got to see the amount of construction they’d helped finance,” said Ginny Fang, the CEO of Golden Gate Global, an investment fund for the EB-5 program.

Nearly \$250 million – a huge swath of the money Lennar Urban has put into the Hunters Point Shipyard project – so far has come from low-interest loans dished out by about 500 wealthy foreigners as part of the EB-5 program over the last three years. That is helping to kickstart the generation-long effort to transform the toxic former naval base, which is next to the low-income Bayview neighborhood, into the city’s new development frontier.

HOME OF THE DAY



Luxurious Penthouse Condo in Dynamic Mission Bay!

[See All Homes of the Day](#)

The Shipyard is the largest Bay Area project to make use of the program, which has also helped fund two of New York’s largest real estate endeavors, Hudson Yards and Pacific Park Brooklyn. Lennar has also raised about \$200 million of EB-5 investment for its Treasure Island redevelopment project, which should have construction starting on the first phase of 500 homes by 2017.

Lennar Urban Regional Vice President Kofi Bonner said Lennar expects

to raise another \$240 million over the next two years through EB-5 financing for the Shipyard. Golden Gate Global, an EB-5 fund licensed by U.S. Citizenship and Immigration Services, find the investors for Lennar.

[Take a 4-Step Tour](#)

[Email Me Instead](#)

The EB-5 program, which Congress created in 1990, looks to harness foreign investment for job creation. Each \$500,000 investment – a large portion of which come from Chinese citizens – must create 10 jobs for U.S. workers within two years. After those jobs come to fruition, investors get to become permanent residents.

Often “our investors are doing it for their kids, so they can go to school here,” Fang said.

Bonner said the program “worked out terrifically because the environment we started seeking EB-5 money was when capital was scarce, period. 2012 was when we started sniffing this out. There was hardly any funding available for land development deals.”

Eyes turn toward Wall Street

The EB-5 program’s cheap money has been Lennar’s favorite source so far. The Shipyard has the highest debt-to-capital ratio, 65 percent, of the developer’s 10 largest projects, according to a Securities and Exchange Commission filing.

“EB-5 capital may allow a developer to use a higher degree of leverage than a private lender would otherwise allow,” notes the real estate firm Savills Studley.

But last week a second major source of funding for the Shipyard started to take shape. The public homebuilder’s subsidiary Five Point Homes announced it would likely seek an initial public offering. It will help finance major portions the Shipyard, as well as several other mixed-use large projects Lennar and Five Point are building in California.

We've launched a new article page. ×
Going public will put the Shipyard on display for Wall Street, though
We've improved our reading experience to better serve you. You can take a quick tour to see how we've
details about the corporate restructuring is scant until Five Point officially
files for its IPO.

Take a 4-Step Tour

Email Me Instead

The massive Shipyard redevelopment, which will yield 12,000 homes, 3 million square feet of offices and an outdoor mall on top of the former Candlestick Park site. Google has even considered the site for future offices.

Lennar has about \$45 million of its own equity in the project now after putting in more than \$200 million into the initial infrastructure, entitlements and community benefits.

It's gotten about \$100 million from outside private equity firms like Minneapolis-based Castlelake and snagged several construction loans, according to public filings and previous reports. The U.S. Navy and Environmental Protection Agency has paid for the vast environmental cleanup.

Besides Castlelake, a major development and financial partner mostly has proven elusive. In 2013, \$1.7 billion in funding from China Development Bank fell apart. The U.S. arm of China's largest developers, Greenland Holdings, also passed on helping finance the project. Lennar will likely eventually sell pieces of the 800-acre project to other developers.

Bonner said interest from capital and debt partners is ramping up, hence the potential IPO.

EB-5's starring role

Lennar needs a steady trickle of money as it finishes another 250 homes and starts construction on 400 more this year. If all goes according to schedule, the project will have 1,400 homes built by approximately 2018, Bonner has said in past interviews.

We've launched a new article page.

×

The Shipyard office campus is slated to deliver 800,000 square feet of office space by 2018 and another 2 million by 2021. Bonner said it could look to team up with an office developer to build and pay for that space.

Take a 4-Step Tour

Email Me Instead

Initially used by smaller, riskier businesses looking for investment, the EB-5 program has taken off in recent years in part because of banks' retrenchment from large real estate projects. It's also gotten heavy use in Oakland, where businessman Tom Henderson has put EB-5 money into call centers and large real estate investments like the Tribune Tower.

EB-5 loans serve as a form of mezzanine financing that usually only carry about a 3 or 4 percent interest rate, much less than the typical 10 percent for that kind of loan, said Ronald Fieldstone, an attorney at Arnstein & Lehr LLP who has worked on the Shipyard's EB-5 financing.

"An investor's goal isn't to make a profit. Their goal is to primarily get their green card," Fieldstone said.

Future of EB-5

But the growth and loose oversight of the program now has Congress concerned. A record 10,692 EB-5 visas were issued last year, and the Chinese investors have exceed their about 10,000 visas allocation for this year.

Last month, Republican Senator Charles Grassley from Iowa and Democrat Patrick Leahy from Vermont proposed legislation that would re-authorize the program, but increase oversight over companies that arrange investments and increase the minimum investment from \$500,000 to \$800,000.

The legislation would also incentivize more investments to pour into areas that are rural and have high unemployment. Fieldstone said it would change the program "dramatically." Bonner added that the high-

unemployment neighborhoods like Bayview and Treasure Island adjacent to Lennar's projects would likely mean that they still qualify.

The added scrutiny of the program comes after SEC allegations that two firms illegally brokered \$79 million of investments. Fang said added

regulation would help curb concerns as the program “moves into a different realm.”

“It’s growing up. It’s where hedge funds were 20 years ago, where regulation hadn’t caught up. We’re experiencing the same things,” she said.

Want **San Francisco Banking & Financial Services** news in your inbox?
Sign up for our free email newsletters.

SUGGESTED READING

COMMERCIAL REAL ESTATE
Concord picks two finalists for
\$6 billion naval base
development project

RESIDENTIAL REAL ESTATE
San Francisco condo resale
prices shatter records

COMMERCIAL REAL ESTATE
Developer breaks ground on
two S.F. condo buildings in \$1
billion pipeline

RESIDENTIAL REAL ESTATE
San Francisco pair to pay \$276,000
after evicting tenants to cater to

tourists

We've launched a new article page.

x

We've improved our reading experience to better serve you. You can take a quick tour to see how we've improved.

**What Donald Trump Thinks about
Home Solar Panels**

Solar America

TECHNOLOGY

Kleiner Perkins sets \$1 million
obstacle to prevent Ellen Pao appeal

Take a 4-Step Tour

Email Me Instead

**FOLLOW LOCAL BUSINESS
NEWS THROUGHOUT THE DAY**
with the Morning and Afternoon Edition newsletters

FREE SIGN UP

THE BUSINESS
JOURNALS

4 Billionaires Say: Something Big Coming Soon In U.S.A

Stansberry Research

Why these San Francisco companies are moving to Oakland

Promoted Links by Taboola

We've launched a new article page.

×

We've improved our reading experience to better serve you. You can take a quick tour to see how we've improved.

Take a 4-Step Tour

Email Me Instead

email address